

TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Alternative Investments  
Activity Status Report

ITEM NUMBER: 14

ATTACHMENT(S): 2

ACTION: \_\_\_\_\_

DATE OF MEETING: February 6, 2002

INFORMATION: X

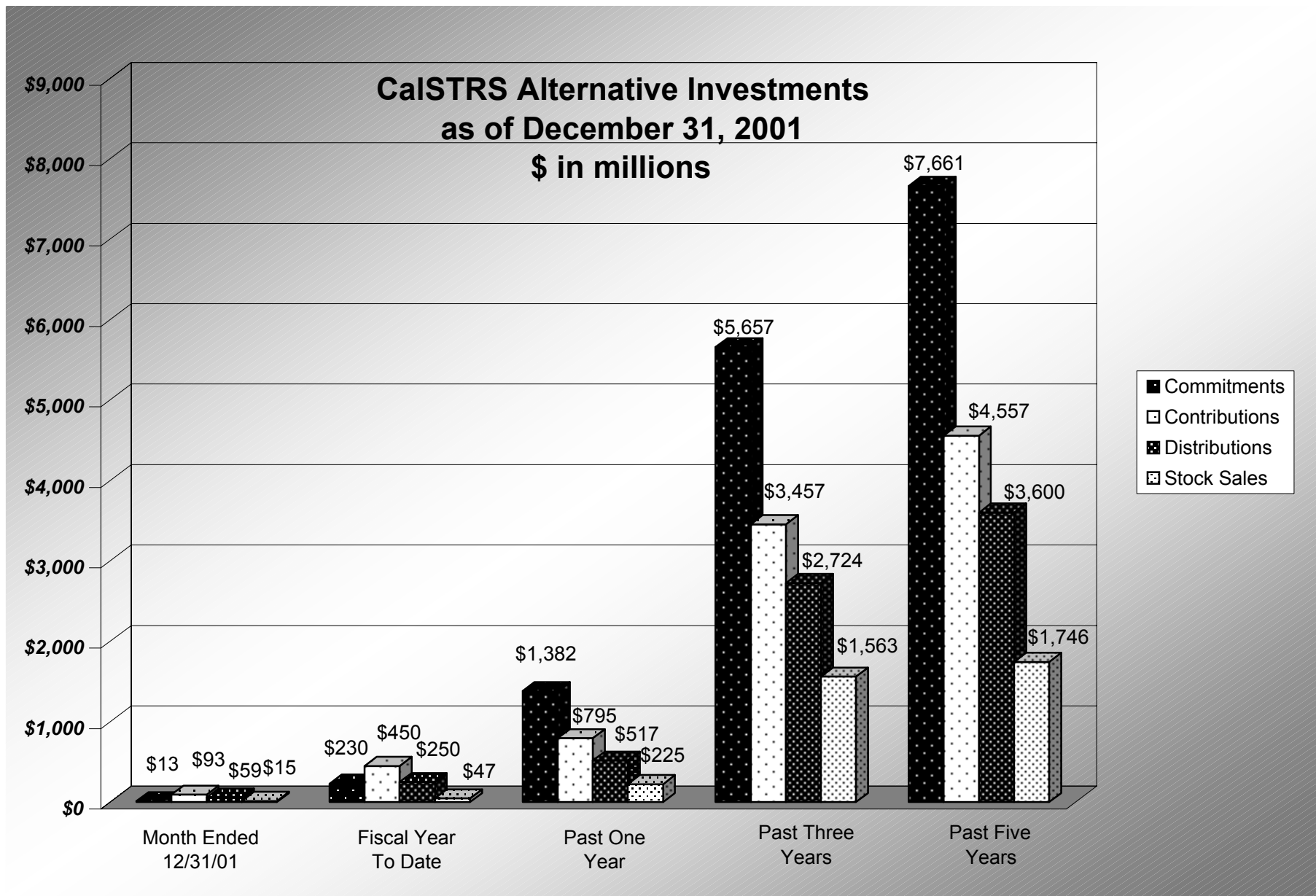
PRESENTER(S): Réal Desrochers

The table below contains Alternative Investment activity for the month of December 2001 and historical information for selected time periods.

	Month Ended 12/31/01	Fiscal Year To Date	Past One Year	Past Three Years	Past Five Years
<u>Commitments:</u>					
Partnerships	\$ 0	\$ 215,000,000	\$ 1,296,600,000	\$ 5,355,825,000	\$ 7,359,917,413
Co-Investments	12,500,000	12,500,000	82,879,584	219,011,854	219,011,854
Secondaries	0	2,047,424	2,047,424	82,114,669	82,114,669
	<b>\$ 12,500,000</b>	<b>\$ 229,547,424</b>	<b>\$ 1,381,527,008</b>	<b>\$ 5,656,951,523</b>	<b>\$ 7,661,043,936</b>
<u>Contributions:</u>					
Partnerships	\$ 79,971,134	\$ 411,345,521	\$ 714,202,806	\$ 3,194,962,450	\$ 4,279,887,618
Co-Investments	12,607,836	22,823,508	58,418,764	147,410,519	147,410,519
Secondaries	415,000	1,654,746	1,686,244	74,741,109	74,741,109
Mgmt. Fee (Outside)	0	13,771,004	20,811,041	40,300,531	55,262,280
	<b>\$ 92,993,970</b>	<b>\$ 449,594,779</b>	<b>\$ 795,118,855</b>	<b>\$ 3,457,414,609</b>	<b>\$ 4,557,301,526</b>
<u>Distributions:</u>					
Cash	\$ 43,467,310	\$ 205,296,394	\$ 378,246,739	\$ 1,155,034,735	\$ 1,825,330,801
Stock	15,562,546	44,468,918	139,189,748	1,568,537,678	1,774,559,148
	<b>\$ 59,029,855</b>	<b>\$ 249,765,313</b>	<b>\$ 517,436,487</b>	<b>\$ 2,723,572,413</b>	<b>\$ 3,599,889,949</b>
Stock Sales	\$ 14,629,233	\$ 46,609,473	\$ 225,275,540	\$ 1,562,658,540	\$ 1,745,720,608

The chart presented in Attachment 1 illustrates the total amount of capital that CalSTRS has committed and contributed to its limited partnerships, co-investments, and secondary interests for the five year period ending December 31, 2001. The chart also illustrates the amount of distributions received and stock sold over the past five years. For the five year period ending December 31, 2001, CalSTRS has received total distributions of nearly \$3.6 billion, representing 79% of contributed capital.

During the month of December 2001, staff made a \$12.5 million commitment to TPG Endurance Partners (Cayman) L.P. in accordance with delegation of authority guidelines. Attachment 2 provides an executive summary of this investment.



**Delegation C-I # 15**

**CalSTRS  
ALTERNATIVE INVESTMENTS**

**Texas Pacific Group III  
Co-Investment Recommendation for**

**Endurance Specialty Insurance Ltd.**

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**Action:** Commitment of \$12.5 million in a co-investment in Endurance Specialty Insurance Ltd. (Endurance) subject to the successful negotiation of legal terms and conditions.

**Background:** Texas Pacific Group III (TPG), has raised \$200 million (\$50million allocated for co-investors) to invest in Endurance which is a Bermuda-based insurance and reinsurance company which is being formed to take advantage of capacity constraints in the global property and casualty insurance industries that were exacerbated by the substantial insured loss incurred in connection with the terrorist attacks of September 11, 2001.

The CalSTRS investment of \$12.5 million, the additional indirect investment of \$12.9 through TPG, and an additional investment of \$13.1 by TH Lee V will give CalSTRS a total investment of \$38.5 million in Endurance, or 3.2% of the total \$1.2 billion raised by all investors.

**Investors:** TPG, TH Lee, Aon (deal sponsor and largest reinsurance broker in the world and 2<sup>nd</sup> largest primary insurance broker in the world), Zurich Financial Services (deal sponsor and one of the largest primary insurance brokers in the world), Perry Capital, Lightyear, CalPERS, CalSTRS, NY Life, GM Capital Partners, TIAA/CREF, Pathway and others are included in the investor group.

**Investment Thesis:** The current insurance industry environment represents a favorable opportunity to deploy capital. The investment thesis is as follows:

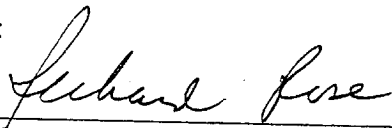
- Losses related to the 9/11 WTC events, reserve deficiencies, and declining stock prices have strained the reinsurance industry's capital base and reduced its underwriting capacity, which could lead to a 2-3 year "hard" market characterized by significant rate increases and rising returns on equity ("ROEs").
- With \$1.2 billion of initial capital and founding shareholders that include Aon and Zurich Financial Services, Endurance represents a strong, well-capitalized platform with credible sponsorship.

- Endurance's multi-line business plan may allow the Company to realize diversification benefits and to allocate capital to high-return lines, creating a portfolio with attractive risk/reward characteristics.

Policy Compliance: This investment complies with the Alternative Investment Policies, which were approved in April 1999. KPMG is the Independent Fiduciary (KPMG) and has worked with Staff to document the transaction. The recommendation resulted after investment analysis and due diligence were conducted in a manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit up to \$12.5 million to Endurance. CalSTRS' commitment is subject to the successful negotiation of legal terms and conditions.

By:

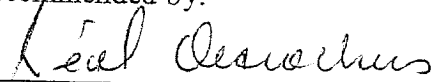


Richard Rose

Principal Investment Officer

Date: 12/17/01

Recommended by:



Real Desrochers

Director-Alternative Investments

Date: December 17, 01

Approved by:



Christopher J. Ailman

Chief Investment Officer

Date: 17 Dec 01